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RECENT MULTILATERAL PAYMENTS ARRANGEMENTS AND MONETARY COOPERATION IN AFRICA

I. INTRODUCTION

1. The first Economic Summit of the Assembly of Heads of State and Government of the Organization of African Unity, was held in Lagos, Nigeria in April 1980 who in turn adopted the "Lagos Plan of Action".

2. The fundamental objective of the Lagos Plan of Action is the establishment of self-sustaining development and economic growth, based on collective self-reliance. It aims at improving the standards of living of the mass of the African people and reducing mass unemployment.

3. In this connection, it should be noted that intra-African trade is given priority because of its inherent potential as the mainstay for the African strategy. Basically because it is capable of contributing to diversifying the over-all trade of the region and concretizing continental and sub-regional self-reliance within the content of the adopted principles of the Lagos Plan of Action. At present, intra-African trade is rather small compared with total Africa's world trade since it is of the order of about 5 per cent.

II. SOME RECENT TRENDS

4. Measures recommended for promotion of intra-African trade in the Lagos Plan of Action include, among others taking action in the field of monetary and financial cooperation:

(i) Each sub-region to review whatever financial cooperation arrangements exist among member countries with a view to integrating them into one sub-regional multilateral clearing and payments system not later than the end of 1984;

(ii) For those subregions where institutional payments arrangements do not exist, member countries should embark on negotiations to establish appropriate clearing and payments arrangements concurrently with the negotiations on the creation of preferential trade areas and not later than the end of 1984;

(iii) That following the establishment of institutional clearing and payments arrangements in all sub-regions, member countries should embark on negotiations for the creation of appropriate payments arrangements for the whole region with a view to achieving a payments union for the whole region before the end of this decade.

5. Furthermore is the fact that the Lagos Plan of Action seeks the establishment of an African Monetary Fund and an African Mutual Guarantee and Solidarity Fund. This is apart from the support given to increasing resources of the African Development Bank.

6. Consequently, the setting-up of clearing houses in some of the sub-regions under the auspices of the Association of African Central Banks paves the way for creating links among sub-regional clearing houses and should in turn facilitate the establishment of a regional clearing mechanism:

(a) <u>The Clearing and Payments Arrangements for the Preferential Trade Area for Eastern and Southern African States</u>

(i) Significant progress is being made within the Eastern and Southern African sub-region which comprises 18 countries (Angola, Botswana, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe) towards establishing a proper framework for the creation of a Clearing and Payments Arrangement. It is in this connection that protocol on Clearing and Payments Arrangements has been discussed and agreed upon by the Inter-governmental Negotiating Team and subscription revised by the Eastern and Southern African sub-regional Committee of the Association of African Central Banks and amended by the Working Group of Central Bank Governors as well as by the Principal Intergovernmental Negotiating Team Negotiators. It has since been initiated and

endorsed by the Third Extra-Ordinary Conference of Ministers of Trade, Finance and Planning of Eastern and Southern Africa during their meeting held in Addis Ababa from 12 to 13 October 1981.

(ii) It is hoped that the Treaty establishing the Preferential Trade Area for Eastern and Southern African States and incorporating the Protocol on Clearing and Payments Arrangements will be ratified by the Heads of State of the sub-region during their summit scheduled to be held in December 1981 in Lusaka (Zambia).

(iii) It is envisaged that the Treaty would become effective on 1st January 1982 and so will its Clearing and Payments Arrangements. The Clearing and Payments Arrangement sets out to:

- encourage the use of national currencies in the settlement of eligible transactions between themselves;
- establish adequate machinery for the settlement of payments among themselves;
- reduce as much as possible the use of foreign exchange by the member States in their inter-State transactions and;
- consult regularly among themselves on monetary and financial matters.

(b) <u>The Central African Clearing and Payments Union</u>

(i) The United Nations Economic Commission for Africa carried out a feasibility study which resulted in the establishment of a Clearing and Payments Union for Central Africa. The agreement establishing the Union was signed on 25 January 1979 by Zaire and the members of the Banque des Etats de l'Afrique Centrale (BEC) namely, Cameroon, Central African Republic, Chad, Congo and Gabon.

(ii) The most important objectives of the Union include among others:

(i) to promote the use of the currencies of the members of the Union in trade and other transactions;

(ii) to bring about economies in the use of foreign reserves of the members States;

(iii) to encourage member States to liberalize trade among themselves and

(iv) to promote monetary cooperation and consultations among the members.

(c) The West African Clearing House

(i) Similar steps to those outline in respect of countries in the Eastern and Central African subregions have also been initiated. As an interim measure towards monetary integration, the Association of African Central Banks was instrumental in the establishment of the West African Clearing House on 25 June 1975 comprising 12 countries (Benin, Gambia, Ghana, Ivory Coast, Liberia, Mali, Nigeria, Niger, Senegal, Sierra Leone, Togo and Upper Volta). Its declared objectives have been:

- to promote the use of the currencies of the members of the Clearing House for sub-regional trade and other transactions;
- to bring about economies in the use of foreign reserves of the members of the Clearing House;
- to encourage the members of the Clearing House to liberalize trade among themselves;
- to promote monetary cooperation and consultations among its members.

(ii) The West African Clearing House has been in existence for almost six years and its record of achievements is quite impressive. Thus it now undertakes:

- monthly settlement of balances between member central banks;
- the organization of annual meetings of Commercial Banks in West Africa. This particular activity was started in 1977 and aim at affording these institutions and personnel thereof to gain a better appreciation of the need of cooperation;
- to assist in the setting-up of the West African Bankers' Association for which it serves as an interim secretariat;
- to organize on behalf of the Association of African Central Banks. In this connection, it organized in July 1979 the first meeting of Commercial Banks in Africa;
- to organize for representatives of member central banks study tours intended to familiarize them with the operational procedures of other clearing arrangements.

(d) Great Lakes Countries' payments agreements

Burundi, Rwanda and Zaire signed a payments agreement in 1979 which among other things, will simplify regulations governing trade transactions and payments methods among these three countries.

(e) Other initiatives relating to monetary and financial cooperation

(i) The Association of West African Commercial Banks was inaugurated in August 1981. Thanks to the initiatives of the Association of African Central Banks and of the West African Clearing House. It aims at bringing together commercial banks of the sub-region and to make them more active in the operations of the Clearing House;

(ii) In July 1981 the Central African States agreed to set up an Association of Commercial Banks at the sub-region level. The Association aims among other things to facilitate operations in the Central African Clearing and Payments Union;

(iii) Developments in the North African subregion in this field have received a new impetus with the completion by ECA of a study to facilitate the establishment of an appropriate clearing and payments system.

(iv) Noteworthy also is ECA's collaboration with the African Development Bank and the African Centre for Monetary studies. In this connection is the recent completed study on the creation of a sub-regional trade and development bank for Eastern and southern Africa intended for financing intra-sub-regional trade. The status of the study is that it had been recommended to the Ministers of Trade, Finance and Planning of the sub-region for appropriate policy guidelines.

III. CONCLUSION

7. The Economic Commission for Africa (ECA) believes that every effort intended to promote ECDC should be encouraged, especially where the initiative derives from the members States themselves. Thus it makes and will continue to make every effort to assist member States in promoting economic cooperation and integration among themselves. It will encourage and support as well as initiate, as the case may be, the establishment of such institutions as preferential trade areas, customs unions and common markets at sub-regional and eventually at the regional level. The secretariat is convinced that by collaborating with sister agencies like UNCTAD such sub-regional groupings can effectively pave the way for monetary and financial cooperation and integration among African countries.

8. Needless to reiterate, ECA's ultimate objective is the establishment of an African Monetary Union and an African Monetary Fund regardless of how long it takes.

9. It is therefore pertinent to stress the fact that most or the conclusions of the Panama City Working Group meeting from 16 to 18 September 1981 need to be further clarified in terms of:

(i) Clarification of the main issues involved in the linkages between two or more regional clearing arrangements in order to facilitate the formulation of detailed guidelines for such proposed links;

(ii) Terms and conditions relating to establish mutual support financial schemes between regional credit arrangements (or stabilization funds);

10. It is in this vein that ECA welcomes the opportunity of this meeting as an avenue which can shed some light on these two subjects. The discussions during the Barbados meeting and the recommendations therefrom should enlighten many a monetary and financial institutions as well as be a source of confidence for mobilizing resources on establishing links at the interregional level, especially among developing countries within the context of ECDC.